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UNCLAS SECTION 01 OF 02 KINGSTON 000755

SIPDIS

SENSITIVE

STATE FOR WHA/CAR (ACADIEUX) (VDEPIRRO)
WHA/EPSC (MROONEY)
WHA/EPSC (FCORNEILLE)
EEB/ESC/IEC/EPC (MMcMANUS)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW

E.O. 12958: N/A

TAGS: [ENRG](#) [EINV](#) [ECON](#) [ETRD](#) [TRSY](#) [IBRD](#) [WTO](#) [XL](#) [JM](#)

SUBJECT: JAMAICA: ETHANOL SECTOR, FULL OF HOPES AND FEARS

REF: A. KINGSTON 490

[1](#)B. KINGSTON 703

[1](#)C. 07 KINGSTON 1614

SUMMARY

[1](#)1. (SBU) The Jamaican ethanol sector is seeing profitable growth as exports to the U.S. market rise, benefiting from trade preferences provided by the Caribbean Basin Initiative (CBI). The Government of Jamaica (GOJ) has agreed to the sale of its former sugar estates to Brazilian firm Infinity BioEnergy (reftels), which should bring new investment to the sector. However, as the island is starting to invest more in its ethanol production, it is increasingly concerned that this nascent industry will be hurt by the loss of CBI trade benefits or by a possible World Trade Organization (WTO) challenge brought by Brazil to end the U.S. tariff on ethanol. The Ambassador and Emboffs met with the Minister of Foreign Affairs and Foreign Trade (MFAFT), Dr. Kenneth Baugh, to discuss efforts to expand the sector and rising fears that the U.S. will reduce or eliminate its tariff on ethanol. The MFAFT provided an Aide Memoire on ethanol, the text of which is included below. END SUMMARY

GOVERNMENT CONCERNS

[1](#)2. (SBU) On August 22 the Ambassador, DCM, and Emboffs met with Dr. Baugh; Lorne McDonnough, Under Secretary for the Trade Division; Jacqueline Bell, Foreign Service Officer; and Chief Legal Counsel, Michelle Walker to discuss ethanol. Baugh said, "Brazil is lobbying in the United States to have the ethanol tariff removed; this is a major concern of ethanol producers in Jamaica who fear they will lose access to the U.S. market if Brazil challenges the U.S. tariff at the WTO or if the CBI benefits are lost."

NOTE: Geneva press reported on July 30 that Roberto Azevedo, Brazil's WTO ambassador, said there was a "strong possibility" that his country would make a formal complaint in September. END NOTE.

[1](#)3. (SBU) Baugh asked about current legislation on ethanol and Econoff explained the status of two bills introduced in the U.S. House (H.R. 6324) and Senate (S.3080) that propose to lower the U.S. ethanol tariff from 54 cents to 45 cents to match the U.S. ethanol subsidy (lowered from 51 cents to 45 cents) under provisions of the 2009 Farm Bill. Baugh responded, "If that were to happen, we could still compete at 45 cents if the tariff is lowered to match the subsidy under the Farm Bill."

ETHANOL AIDE MEMOIRE

14. (SBU) Below is the text from an Aide Memoire on ethanol delivered to Post on August 25. BEGIN TEXT:

Developments regarding ethanol in USA

As the Caribbean's principal exporter of ethanol to the USA under the Caribbean Basin Initiative (CBI), Jamaica is concerned about proposals in the USA to reduce or eliminate the additional tariff of 54 cents per gallon on ethanol imported into the USA from non-CBI countries.

In the WTO, we also note that in the Doha Round Agriculture negotiations, the USA's tariff on ethanol of 2.5% is likely to be reduced by 50% over 5 years.

The removal of these tariffs will erode the margin of preference granted to Jamaica under the CBI.

We have also noted reports that the Government of Brazil is planning to request consultations with the USA in the WTO concerning its additional tariff of 54 cents per gallon applied to ethanol imported from Brazil.

Given the investment being made to expand the production of ethanol in Jamaica, the Government is concerned that the removal of the tariff, particularly the 54 cents, could have serious implications for the competitiveness of Jamaica's ethanol in the US market. END TEXT.

OTHER GOJ MEETINGS ON ETHANOL

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15. (SBU) On July 30, Econoff met on July 30 with Marcia Thomas, Senior Director for Trade at MFAFT, where she raised several concerns regarding Jamaica's benefits for exporting ethanol to the U.S. market. Thomas was worried that duty free ethanol imports under the Caribbean Basin Initiative (CBI) could expire in September 2010 when the benefits provided under the Caribbean Basin Trade Partnership Act (CBTPA) end. Econoff explained that ethanol imports fall under the provisions of the Caribbean Basin Economic Recovery Act (CBERA), which do not expire.

RETICENT TO LOBBY OTHER COUNTRIES

16. (SBU) Thomas raised concerns that Paraguay may also try to challenge CBI trade preferences in the WTO. When asked why the MFAFT does not has raise this issue directly with Paraguayan officials in order to protect this benefit, Thomas responded fatalistically, "the Paraguayans do not wish to engage on this issue."

GROWTH IN ETHANOL SECTOR

17. (SBU) Despite the concerns expressed by Baugh, Jamaica continues to strengthen economic and political ties with Brazil (reftel A). Brazil has taken a particular interest in Jamaica's failed sugar estates; the Brazilian firm Infinity Bio-Energy has agreed to purchase the assets of the Sugar Company of Jamaica (SCJ). This purchase includes the ethanol dehydration facility near the port in Kingston (formally owned by Brazilian-based Coimex) which is used to process hydrous ethanol from Brazil. As part of the deal, the GOJ absorbed nearly USD 225 million in debt that was held by SCJ. The GOJ, which still retains a 25 percent stake in the operation, is hoping that privatization will generate new investment in the sugar-based ethanol sector. (reftel B).

18. (SBU) Jamaica Broilers (JB) has generated USD 100 million in the last year from sales of ethanol to the U.S. market and plans invest USD 15 million to expand capacity. (reftels B and C). Also, earlier this summer Econoffs met with one of the principals of Tankweld, a well-known construction firm, who expressed interest in possibly developing an ethanol project in Jamaica. He said any investment in the sector will be sensitive to the various tariffs involved;

changes in these factors could change the viability of a project.

COMMENT

19. (SBU) Jamaica is aggressively moving forward in the ethanol sector, and there is likely to be further investment in the field. The GOJ claims they need CBI benefits in order to compete in the U.S. market which, given the early stages of the industry, is true. The push for ethanol is meant to generate economic growth; but more importantly Jamaica depends on foreign oil for nearly 90 percent of its primary energy demand, and its oil import bill is over USD 2 billion. Jamaica's two other largest industries, bauxite and tourism, are also sensitive to rising fuel prices; any diversification into renewable energy will thus generate benefits for other sectors. Jamaica is a traditional sugar producer and hopes to use this strength to be able to develop its own domestic ethanol demand for electric power and transportation.